Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author: Reyes

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Bill Number: AB 2090

Related Bills: AB 1192 (99/00), AB 1217 (97/98)

Telephone: 845-3627

Introduced Date: 02-22-2000

Attorney: Patrick Kusiak

Sponsor:

SUBJECT: Targeted Tax Area/Approve Expansion of No More Than 15%/Qualified Taxpayer Expanded to Include Fresh Produce Packinghouses

SUMMARY

This bill would require the Trade and Commerce Agency (TCA) to expand a Targeted Tax Area (TTA) by up to 15%, if the increased area meets certain specified criteria and conditions. This bill also would amend existing law to add certain crop preparation services to the list of trades or businesses that may claim the tax incentives applicable in a TTA.

EFFECTIVE DATE

As a tax levy, this bill would be effective immediately upon signature and would be operative for taxable and income years beginning on or after January 1, 2000.

PROGRAM HISTORY/BACKGROUND

California has four types of economic development areas that have similar tax incentives:

- Enterprise Zones,
- Local Agency Military Base Recovery Areas (LAMBRA),
- Targeted Tax Area (TTA), and
- Manufacturing Enhancement Areas (MEA)

SPECIFIC FINDINGS

Under the Government Code, existing state law provides for the designation of a targeted tax area (TTA). Using specified criteria regarding unemployment, income levels, poverty levels, and percentages of residents receiving Aid to Families with Dependent Children, the TCA designated Tulara county as the TTA. The TTA was designated November 1, 1998, and the designation is binding for 15 years beginning January 1, 1998.

Under the Revenue and Taxation Code, existing state law provides special tax incentives for taxpayers conducting business activities within the TTA. These incentives include a sales or use tax credit, hiring credit, business expense deduction, and special net operating loss treatment.

Board Position:			Department Director	Date
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This bill would require the TCA to approve expansion of the TTA by up to 15%, if the increased area meets the necessary criteria to be a TTA (unemployment, income levels, poverty levels, and percentages of people receiving Aid to Families with Dependent Children, based on 1995-96 numbers) and the following conditions exist:

- The governing body of each city in which the TTA is located approves an ordinance or resolution approving the proposed expansion.
- The proposed expansion area is zoned for industrial or commercial use.
- The basic infrastructure, including, but not limited to gas, water, electrical service, and sewer systems, is available to the proposed expansion area.

For purposes of the TTA, **this bill** also would amend existing law to add certain crop preparation services, excluding cotton ginning, to the list of trades or businesses that may claim the tax incentives applicable in a TTA.

Implementation Considerations

Implementing this bill would not significantly impact the department's programs and operations.

Technical Considerations

This bill in adding certain crop preparation services to the list of trades or businesses that may claim the tax incentives applicable in a TTA references the Standard Industrial Classification (SIC) Manual, specifically Code 723. However, the SIC uses a 4 digit code, as a result, the "723" added by this bill should be amended to read "0723."

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

Based on limited data, revenue losses from this bill are projected to be rather minor over the initial years.

Estimated Revenue Impact of **AB 2090** Taxable Years Beginning After 12/31/1999 and Enactment After 6/30/2000 (In $Millions)			
Fiscal Years	2000-01	2001-02	2002-03
Revenue Impact	(Negligible)	(Minor)	($0.5)

(Negligible) means losses less than $50,000;
(Minor) means losses less than $250,000.

Any possible changes in employment, personal income, or gross state product that might result from this provision are not taken into account.

According to available departmental data, tax benefits received by businesses in the existing targeted tax area for the two months of designation in 1998 were on the order of $50,000. The impact from this proposed expansion cannot be predicted in advance, but would most likely be relatively minor as indicated above.

BOARD POSITION

Pending.